



FOR IMMEDIATE RELEASE

Tuesday, April 12, 2005

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Connecticut Common Cause report

The gift that keeps giving: Campaign contributors benefited from tax breaks

The Rowland scandal has revealed weaknesses in the state laws drafted to guard the public trust. The former governor's blatant disregard for ethics laws paved the way for his impeachment hearings, resignation, guilty plea and eventual 12-month prison sentence. The sad irony of the Rowland scandal is that the *illegal* gifts that lead the demise of the former governor obscure the *legal* campaign contributions. Hot tubs, cathedral ceilings, free trips and other amenities may have been Rowland's undoing, but the same individuals who gave those gifts leveraged their ability to raise large sums of campaign contributions to help keep Rowland in power and reap the dividends at the expense of state taxpayers.

Now that former Gov. Rowland is in prison, the responsibility of correcting the systemic problem of money in politics to repair the damage to the public trust falls to Gov. Rell and the leadership of the Connecticut General Assembly. This week the Legislature's Finance Committee will be voting on legislation to correct the flaws of our corporate tax code system — a system that has benefited Key Air Inc. and the Academy of Driving, two companies that made headlines in the interval between Rowland's resignation and his sentencing.

Key Air received at least \$1 million in sales and use tax exemptions. The Academy of Driving received tens of thousands of dollars in property tax breaks for vehicles operated in Waterbury but stored in neighboring towns. It is no coincidence that both companies were major campaign contributors to Rowland's campaigns, with Key Air officials giving \$24,400 to Rowland's elections and Academy of Driving associates contributing \$21,582.64.¹

In addition to eliminating the numerous opportunities to game the state's tax system, the Legislature must address the growing problem of money in politics.

A LIFE
ACORN
AFSCME Council 4
American Postal Workers Union,
WestConn Area Local
Capitol Region Council of Churches
Citizens For Economic Opportunity
Citizens For Election Reform
Collaborative Center for Justice
Connecticut AFL-CIO
Connecticut Association of Human
Services
Connecticut Citizen Action Group
Connecticut Coalition for Lesbian,
Gay, Bisexual and Transgender
Connecticut Common Cause
Connecticut Communist Party
Connecticut Conference of the
United Church of Christ
Connecticut Federation of
Educational and Professional
Employees
Connecticut Green Party
Connecticut NOW
Connecticut State Employees
Association
CCD
Connecticut Women's Education
and Legal Fund
ConnPIRG
CT NASW
Danbury Central Labor Council
Danbury Hospital Professional
Nurses Association, Local 5047
DemocracyWorks
Democracy for CT
Earth Matters
Fairfield County Labor Council
Grassroots Coalition, Inc.
Greater Hartford African American
Alliance
Greater Hartford Labor Council
Hartford Environmental Justice
Network
Healthcare For All
NAACP-CT
Northeast Action
One Connecticut
People's Action for Clean Energy
SEIU
Sierra Club-CT
Toxic Action Center
United Auto Workers-Region 9A
Veterans for Peace, Chapter 18
Western Connecticut Central Labor
Council
Yale Students for Clean Elections
Youth for Justice

On Thursday, the Legislature's Appropriations Committee is expected to vote on the two bills that calls for the public financing for political races. It is no coincidence that the same companies and individuals who benefit from the state's lax tax laws are also major campaign contributors. Our state leaders must address a campaign financing system that has degenerated into a form of legalized bribery.

This report will critically examine the relationships between Governor Rowland's office and Key Air Inc. and the Academy of Driving, respectively, which have helped foster a culture of corruption in state politics. Common Cause will examine contributions from Key Air and The Academy of Driving executives, family members, lobbyists, lawyers, and others affiliated with the companies that benefited from their financial support. After analyzing campaign contribution data from the past three election cycles, Common Cause found:

- \$8,250 from Alan J. DePeters, President of Key Air Inc., and family members to the 1994, 1998, and 2002 Rowland gubernatorial campaigns.
- \$4,750 from Brian O'Neil, Vice President and Manager of Key Air Inc., and family members to the 1998 and 2002 Rowland gubernatorial campaigns.
- \$10,650 from Thomas R. Holmes, former secretary of Key Air Inc. and Keystone Aviation Services, and family members to the 1994 and 2002 Rowland gubernatorial campaigns.
- \$750 from Key Air Inc. and Keystone Aviation Services to the 1994 Rowland gubernatorial campaign.
- \$13,432.64 from Joaquim "Jack" Sousa, owner of the Academy of Driving and the state agent of the Driving School Association of Connecticut, and family members to the 1994, 1998, and 2002 Rowland gubernatorial campaigns. Sousa himself was also an active political fundraiser for the former governor.
- \$4,000 from Armando Paolino, Sousa's lobbyist at the firm Updike, Kelly & Spellacy, and his family to the 1994 and 1998 Rowland gubernatorial campaigns. (*Note: The legislative interests of Updike Kelly and Spellacy are not limited to the interests of Jack Sousa, who is one of many clients.*)
- \$4,150 from Thomas Porzio, Sousa's lawyer, and his family members to the 1994, 1998 and 2002 Rowland gubernatorial campaigns.² (*Note: Jack Sousa was only one of Thomas Porzio's clients.*)

Key Air and Academy of Driving officials supported Governor Rowland's political campaigns over the past decade with the purpose of receiving political favors from the governor's office. Their close association with the Governor led to executives from both companies approaching the governor's office to ask for tax relief which benefited their businesses alone. This completely legal form of

political reciprocity has nurtured a culture of corruption which may have led these companies and the former Governor to engage in illegal activities including the acceptance of gifts and the awarding of no-bid contracts to state agencies. Common Cause believes that current campaign finance laws do not do enough to prevent political corruption within the state's halls of government and must be reformed.

Key Air Inc.: The Road to Retroactive Tax Relief

Key Air Incorporated is a small chartered aircraft firm headquartered at the Waterbury-Oxford Airport in Oxford, CT. The company has 130,000 square feet of hangar and office space which caters mainly to corporate clients and other executives. Key Air recently built a new \$20 million hangar and plans on adding a restaurant, an 80,000 square foot hangar and office facility, and an 800 foot runway extension. According to the Key Air website, "The clients we serve are the most demanding in the world. Our growth and success can be directly attributed to our attention to detail, flexibility, rapid response time and close, personal, sensitive and confidential relationship with our clients."³

After contributing \$7,400 during the 1994 election cycle, Key Air officials applied for a state loan guarantee of \$675,000 for Keystone Aviation Services Inc, a company in which Key Air has an overlapping ownership. Keystone Aviation subsequently received the loan guarantee from the Connecticut Development Authority in 1996. Both aviation companies share three officers and directors. The two men listed on Keystone's loan application were Alan J. Peters and Thomas R. Holmes.⁴ Both men and their families contributed thousands of dollars to the Rowland campaigns over the past several years. The Key Air website lists DePeters as the company's President and Director of Operations and state records for the former governor's campaign contributions indicate that he was Key Air's president even before Rowland was elected to office. Holmes is listed in some state records as the secretary of Key Air and Keystone and is alternately listed as an executive of USCO Distribution Services Inc. of Longboat Key, FL. USCO Distribution Services Inc. is listed as the employer of Keystone Aviation Services Inc. in state campaign contribution records.⁵

After Key Air officials gave \$7,500 in the 1998 election cycle and \$9,500 in the 2002 election cycle, Key Air and its subsidiaries received additional tax relief from the state. The State House Select Committee of Inquiry learned that Governor Rowland's administration proposed legislation in January 2002 that would have given sales and use tax exemptions for certain aircraft-related services retroactively to 1994. While the full State Senate took no action on the bill forwarded to them from the Senate Finance Committee, Rowland's administration requested that the exemption provision be included in the 2002 budget bill. The State Legislature eventually passed the budget bill with the tax exemption provision added in and Rowland signed the legislation. A legislative analysis said that the retroactive tax break was worth \$800,000 immediately and \$200,000 annually in subsequent years. State records indicate that Keystone Aviation received payments which totaled \$115,000 in the 2000-

2001 fiscal year. Participants in the legislative process recalled that the tax exemption specifically benefited an Oxford, Connecticut-based aircraft company which the Hartford Courant reported was in fact Key Air.⁶ Keystone Aviation also promotes on their website that Connecticut eliminated the sales and use tax on aircraft having a maximum certified takeoff weight of 6,000 pounds or more in 1997.⁷

Key Air's Gifts: Flights and Laundering in Las Vegas

Besides contributing to John Rowland's gubernatorial campaigns, Key Air officials engaged in additional activities to ensure that they would receive their million dollar tax break. On December 24, 2004, former Gov. Rowland admitted that he helped Key Air gain retroactive tax relief in 2002 after he had accepted free flights to Las Vegas and Philadelphia on Key Air's chartered planes in 1999 and 2000.⁸ According to the House Select Committee of Inquiry Hearings, Rowland flew on an eight-passenger Key Air jet from Oxford Airport to Las Vegas, Nevada on November 14, 2000. Rowland confidants Vincent DeRosa, Ralph Carpinella, and two other friends joined the governor on his flight to Las Vegas, where they stayed for thirty-six hours before departing for Florida where Rowland appeared at a Republican political conference.⁹

Brian O'Neill, Vice President of Key Air and an active Rowland campaign contributor, told a Committee investigator that the company could not locate an invoice for the trip and never received payment for it. Mr. O'Neill could not explain why there was not an invoice but added that the trip would have cost about \$725 which is similar to a first-class flight from Hartford to Las Vegas. The House Committee found that Rowland did not use his own credit cards while in Las Vegas nor did he pay for a flight that cost Key Air more than \$4,000 in fuel and the use of two pilots for forty hours. According to other invoices, the cost of the other flights that Governor Rowland took to several locations on Key Air planes ranged from \$2,430.75 to \$3,698.43.¹⁰ As part of his guilty plea last December, Rowland admitted to taking \$91,494 in benefits from Key Air for free travel between April 1999 and November 2000, most of which have yet to be publicly reported. Rowland did not disclose the benefits he received from Key Air and other companies on his income taxes and now appears to owe \$35,459 in taxes and interest on the gifts.¹¹ A Hartford Courant editorial argued "the latest development with Key Air serves to underscore the irrationality and uselessness of many of the tax handouts. No doubt some tax breaks have generated jobs and facilitated the expansion of businesses. But others are senseless."¹²

Jack Sousa and the DMV: Pimp My Driving Academy

Joaquim "Jack" Sousa and his wife Sharon own a driving school company in Waterbury called the Academy of Driving which has benefited from their close association with Governor Rowland. Jack Sousa is also the Connecticut Agent for a group called the Driving School Association of Connecticut, a small network of local driving schools including Sousa's own Academy of Driving. He developed a

friendship with Rowland by running three campaign fundraisers for the governor's political campaigns. Because campaign finance disclosure laws do not require campaigns to disclose how much was raised at specific fund raisers, it is not possible to accurately quantify how much Sousa helped raise. Therefore, this report underestimates the amount of campaign contributions to Rowland for which Sousa is responsible. In individual contributions, Sousa and his Waterbury associates, lobbyist Armando Paolino and lawyer Thomas E. Porzio, gave \$5,932.64 to John Rowland's 1994 gubernatorial campaign.¹³

In 1995, Sousa and his associates successfully lobbied the state legislature and the Department of Motor Vehicles to expand a remedial driver training program for teenaged motorists who accumulated multiple tickets to include drivers of all ages. After the expansion, the DMV chose to outsource the program to the nonprofit National Safety Council, a national organization which had developed the curriculum for the program, a group that did not include Sousa's driving company. Sousa lobbied state government officials intensely to have his driving association included in the contract for the program. In April 1996, the DMV Commissioner Michael Kozlowski signed a no-bid agreement with Sousa, authorizing the Driving School Association of Connecticut to provide the certified retraining course along with the National Safety Council. The arrangement enabled Sousa's association to become the largest provider of state-mandated retraining courses for motorists with multiple violations. The bulk of group's business went to Sousa's Academy of Driving, which listed more than twenty retraining locations throughout the state on its website. Sousa also took a fee of several dollars whenever he referred retraining inquires to other Driving School Association affiliates.¹⁴

The state Office of Legislative Research found that the DMV selected their retraining program's two vendors through an informal process that did not involve a public issuance of a request for proposals. Between 2001 and 2003, the DMV sent letters to 85,000 drivers informing them that they needed to take a retraining class or have their licenses suspended. About 77,200 drivers have taken the course, which has generated a total of \$3.86 million in fees for the two schools. OLR researchers found that the DMV did not conduct extensive oversight of the driving program and did a poor job accounting for the approximately \$300,000 it received from its \$10 cut of the driving schools' retraining fees. The DMV's oversight was so lax that the department relied on Sousa and other vendors to tell them how many students attended the driving classes. The department sent invoices for the state's share of the money based entirely on the word of their vendors. DMV officials said they did not know how much money Sousa made because the payments go directly from the drivers to the participating schools. Sousa has not said how much money he has made in the eight years that he has provided the training.¹⁵

Sousa claims that Governor Rowland never helped him get the deal and former DMV Commissioner Michael Kozlowski said that he did not receive pressure from the governor's office but that Sousa did have close connections to the governor. The Hartford Courant reported that Rowland co-

chief of staff, Peter N. Ellef, lobbied Kozlowski's successor, Jose Salinas, on Sousa's behalf. Ellef pressured Salinas several years after the no-bid agreement to make a change on the DMV letterhead so that the name and phone number of Sousa's group was listed above the National Safety Council's information on letters sent out to drivers taking the retraining course. Although federal officials have not leveled any charges concerning the no-bid arrangement between Sousa and the DMV, the states Office of Legislative Research rebuked the deal and the state Auditors of Public Accounts is currently investigating the matter.¹⁶ Sousa's financial contributions to the governor's campaigns were completely legal and it is clear that the Rowland administration pressured the legislature and the DMV on Sousa's behalf.

Sousa's Rat Amendment: "It Doesn't Pass the Smell Test"

Sousa and his associates continued to support Governor Rowland by contributing \$7,900 to his 1998 reelection campaign and another \$7,750 to his 2002 reelection campaign. After receiving the no-bid retraining course agreement from the DMV, Sousa continued to lobby the state legislature for political favors. In May 2004, Sousa and his lobbyist Armando Paolino proposed an amendment to a bill that would allow business owners to pay property taxes on a company's motor vehicles in the towns where employees store them in garages overnight. These towns usually had lower tax rates than the city in which the company has its headquarters, so the businesses would save thousands in taxes. Paolino's amendment was to make the tax relief retroactive. Sousa lobbied for the amendment because he owed the city of Waterbury \$70,000 in back taxes. His lawyer, Thomas Porzio, had filed a lawsuit against Waterbury in 2002 to appeal the tax bill and cited the possibility of tax relief from the state during settlement negotiations. A similar case involving Waterbury-based Dinto Electric's vehicle fleets made its way to the State Supreme Court which ruled that Dinto Electric had to pay taxes in Waterbury and in surrounding towns where it stored its vehicles. Despite the opposition of Waterbury city lawmakers, the bill and the tax relief amendment passed the state legislature on the last day of its session. Sousa continued to fight the tax levy and claimed that the retroactive provision from the state legislature changed the circumstances of his legal negotiations with the city. Waterbury Mayor Michael J. Jaruja reacted to the way the amendment became a law at the last minute of the legislative session, saying, "I hate to use that word [rat] but the Armando Paolino amendment was one of those very particular bills that benefit only a few. It doesn't pass the smell test. It's suspicious."¹⁷

Conclusion

It is logical for companies that receive favorable treatment from an elected official to do as much as possible to ensure that that individual remains in power. In today's system of politics, where money is its lifeblood, large campaign contributions are more valuable than gifts and other amenities. It is illogical for state government, which is charged with preserving the public trust, to permit such

pervasive methods of legalized bribery to run amok, creating an environment of impropriety and corruption.

The apparent quid-pro-quo arrangements that benefited Key Air and Academy of Driving controversies show the need for comprehensive campaign finance reform. Executives from both companies became skilled at raising large amounts of money for the governor's campaign, and in return were able to lobby for provisions that specifically benefit their own companies. They were not alone in their actions. Other companies that received favorable treatment from former Gov. Rowland and the Legislature followed the same textbook examples on how to curry favor with elected officials.

Until, the leaders of Connecticut take measures to curb the influence of money in politics, it is all but certain that scandals as corrosive as the Rowland scandal will occur again.

This report was written and researched by Aaron Short, and was edited and reviewed by Connecticut Common Cause Vice-Chair Karen Hobert Flynn and Connecticut Common Cause Executive Director Andy Sauer.

¹ Common Cause is using financial contribution data for the 1994, 1998, and 2002 election cycles. It does not have financial data for the 1990 gubernatorial campaign race, John Rowland's first campaign for state-wide office, or Rowland's previous congressional campaigns.

² 1994, 1998, 2002 Connecticut Gubernatorial Campaign Contributions

³ <http://www.keyair.com/html/company.php>

⁴ Hartford Courant "Portraits of a Cash-Strapped Couple's Helpers," 16 June 2004: A1; and House of Representatives: Select Committee of Inquiry "Final Report of the Select Committee of Inquiry Pursuant to House Resolution 702," 28 June 2004, pg. 22

⁵ Hartford Courant 16 June 2004: A1; and 1994, 1998, 2002 Connecticut Gubernatorial Campaign Contributions.

⁶ House Select Committee of Inquiry Pg. 23. and Hartford Courant "FBI Looks at Aviation Tax Break; Key Air Linked to Rowland, Won 2002 State Exemption," 27 October 2004: B1.

⁷ <http://www.keystoneavitat.com/>

⁸ New York Times "Rowland Admits Felony in Office," 24 December 2004: A1.

⁹ Hartford Courant 16 June 2004: A1

¹⁰ House Select Committee of Inquiry Pg. 22. and Hartford Courant 27 October 2004: B1.

¹¹ Hartford Courant "Guilty; Former Governor Enters Plea, Ends Long Struggle," 24 December 2004: A1.

¹² Hartford Courant "A Highfalutin Tax Break" Editorial. 31 October 2004: C2.

¹³ 1994 Connecticut Gubernatorial Campaign Contributions.

¹⁴ Hartford Courant "DMV Program Under Scrutiny" 16 January 2005: A1.

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Hartford Courant "Rowland Friend Could Get a Tax Break" 21 January 2005: A1.